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C O N F I D E N T I A L SECTION 01 OF 06 DILI 000056

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STATE FOR EAP/MTS, EAP/CM, AND INR/EAP - ZENZIE

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TAGS: [PREL](#) [PGOV](#) [EAID](#) [EMIN](#) [EINV](#) [SMIG](#) [CH](#) [TT](#)

SUBJECT: CHINESE INROADS INTO TIMOR-LESTE: HIGH VISIBILITY, LOW COST,  
FEW STRINGS ATTACHED

REF: A) 03 JAKARTA 13517, B) DILI 012

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CLASSIFIED BY: Henry M. Rector, Deputy Chief of Mission, U.S.  
Embassy Dili, Department of State.  
REASON: 1.4 (b), (d)

#### Summary

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¶1. (C) Summary: Vice Foreign Minister Wu Daiwe's January 29 - 31 visit to Timor-Leste highlights China's relatively high-profile engagement here. Although Chinese diplomats in Dili maintain that Timor-Leste is strategically unimportant to Beijing, the PRC is nevertheless cultivating goodwill and dispensing largess in a pattern consistent with its ongoing regional charm offensive. Timor-Leste's inhospitable business climate, however, remains unattractive to Chinese companies, and new PRC investment is confined mostly to an influx of small-scale retailers and entrepreneurs. More ambitious ventures have not gotten past the exploratory phase. With regard to defense cooperation, the PRC tends to offer training and materiel without coordinating with other donors or contributing to forms of institution-building that would enhance Timor-Leste's long-term stability. Indeed, the Chinese offer to sell a radar array has alarmed at least one very senior Timorese official. This underscores a problem with China's approach to Timor-Leste: the PRC distributes goodies with few strings attached, but steers well clear of difficult yet necessary tasks such as encouraging good governance, cultivating the rule of law, and promoting security sector reform. Although Timor-Leste's future depends on progress in these areas, China seems either indifferent to them or content to leave them to other foreign partners. End summary.

Wu Comes Calling

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12. (U) En route to the UN Convention Against Corruption in Bali, Vice Foreign Minister Wu Daiwei visited Timor-Leste on January 29 - 31. He met with Prime Minister Xanana Gusmao, Deputy Prime Minister Jose Luis Guterres, Speaker of Parliament Fernando Lasama de Araujo, and former Prime Minister Mari Alkatiri. Accepting a longstanding Timorese invitation, Wu was the highest-ranking PRC official to visit Timor-Leste since the nation's independence in 2002. Accompanying him were Deputy Director General for Foreign Aid Yan Jia and Deputy Director General for Asia Wan Fanfu.

13. (C) The highpoint of the visit was a "key handover" ceremony to the imposing new Foreign Ministry building, funded and constructed by China and set to open in March. Vicky Tchong, the Timor-Leste Ministry of Foreign Affairs' new Secretary General and until recently Embassy Counselor in Beijing, told us that the GOTL and China had signed four notes during the visit. The first committed USD 1.4 million (RNB 10 million) in new Chinese aid funds to Timor-Leste. The second agreed in principle to develop a list of Timorese products that could be exported to China duty-free or at preferential tariffs. China also agreed to provide furnishings for the new Foreign Ministry (see para 8 below), and to send a Chinese survey team to start work on promised facilities for the Armed Forces of Timor-Leste (F-FDTL, see para 24). Ms Tchong noted that the China's approach to aid is conducive to maximum PR value. Almost all projects, she said, are funded out of a USD 42 million commitment the PRC made in 2003. This operates like a bank account. The GOTL and PRC consult on how to spend the fund, and every time a decision is announced, it sounds in the media as if China is committing new money. As a result, she said, there is sometimes fanfare about agreements that have little or no immediate impact. Some have no implementing mechanism, while others may not show tangible results until much later. The new MOU on duty-free and preferential exports from Timor-Leste to China is a case in point. It will not come into effect until next year, and there

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is not yet any list of what products it will cover. Ms Tchong said that it would probably include Timorese agricultural products, but the country exports little else that is of interest to the PRC.

Historical Baggage

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14. (U) Chinese outreach to Timor-Leste dates back hundreds of years. A Chinese outpost in Timor to export sandalwood predated Portugal's colonizers. Prior to the Indonesian invasion in 1975, the ethnic Chinese community in Timor numbered about 20,000, mostly with links to Taiwan, Hong Kong, Singapore, and Macau. According to some accounts, marauding Indonesian troops targeted the Chinese merchant community in Dili in the first days of the invasion. The Suharto regime was at the time both strongly anti-communist and anti-Chinese, and in the run-up to the invasion, its intelligence service alleged that the PRC had armed the pro-independence FRETILIN party. Ethnic Chinese deserted Timor in droves during the Indonesian occupation, emigrating to Australia, the Philippines and Taiwan. By the time of independence in 2002, the ethnic Chinese community had dwindled to its current level of an estimated 2,000 - 3,000.

Timor-Leste's Role In China's Regional Strategy

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15. (U) In 2005, the Chinese Embassy in Dili circulated a lengthy white paper entitled "China's Peaceful Development Road." The paper stated that China's "inevitable" rise would be benign and peaceful for a variety of political, economic, and cultural reasons. The paper argues that with respect to its Asian neighbors, China's preference for peaceful, win-win engagement dates back to the voyages of Admiral Zheng He in the

fifteenth century, and has been demonstrated more recently by China's efforts to offset the regional effects of the 1997-98 economic crisis, its assistance to countries stricken by the 2004 tsunami, its cooperative response to SARS, and its constructive participation in a variety of multilateral political and economic structures.

¶6. (U) This is China's declared framework for its policy towards Timor-Leste, which has three objectives, according to PRC diplomats in Dili. The first is to promote goodwill and stability in a small Asian neighbor country. Second, the PRC dispenses its largess freely in order to preempt Timorese overtures toward Taiwan. Finally, the PRC is concerned about the welfare of the Chinese community in Timor-Leste, particularly the burgeoning class of recently-arrived merchants and entrepreneurs.

#### Constructing Goodwill

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¶7. (U) Chinese aid to Timor-Leste comes mostly in the form of buildings and food, although there has been some human resource training conducted in China. PRC DCM Xiong Lichun told us that because of language barriers, China prefers simply to provide material gifts rather than engage in capacity building in Timor-Leste.

¶8. (U) China's highest-profile building projects are the new Foreign Ministry, the Presidential Palace, and the new headquarters of the Armed Forces of Timor-Leste (F-FDTL). The new Foreign Ministry was built with mostly Chinese labor, and will open in March. By far the GOTL's most imposing building, it was designed to house 120 workers. However, a scramble is now underway for space in the prestigious new structure, so it will likely wind up accommodating many more. President Jose Ramos-Horta has said that since he was the Foreign Minister who signed the MOU for the project, he is entitled to an office there until his Palace is ready.

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¶9. (C) Despite the prominence of the new Foreign Ministry and the media attention it has attracted, PRC diplomats regard the six million-dollar facility as a relatively small-scale project. "This was rather inexpensive for us, even by our standards," in the words of political officer Xu Xiao. Another Chinese diplomat noted that if Chinese labor and materials had not been used, its cost would have been at least doubled. As icing on the cake, the PRC has recently agreed to supply USD 500,000 worth of furniture. According to PRC Defense Attache Senior Colonel Wang Xinqiang, this was because the GOTL failed to budget for any furniture on its own. Wang also added that the Chinese installed complete phone, internet, and electrical systems.

¶10. (U) The new Presidential Palace is scheduled to open in ¶2009. Another gift from China, this facility will cost USD five million. The project has already hit a snag, however, since the contractor, Shandong International, made the mistake of hiring Timorese workers who were fired after they refused to work the same long hours as their Chinese counterparts. This led to scuffles between the dismissed workers and their former employers at the site. President Ramos-Horta ordered the F-FDTL to protect the site, and a Labor Ministry mediator is reportedly seeking to resolve the dispute.

¶11. (U) At a prime spot on Dili's waterfront, a Chinese crew is also making progress on the new PRC Embassy, which will open ¶2010. In Beijing, the PRC paid for the construction of Timor-Leste's chancery and staff housing, according to the Chinese DCM. He said this was done without benefit of any written agreement in order to prevent word of the deal from reaching other poorer countries that might make similar

requests. The site for Timor-Leste's Embassy was provided as part of a land swap in exchange for the property of the new PRC chancery in Dili.

¶12. (U) The PRC also plans to build a primary school at Liquica at a cost of USD 500,000. The GOTL has identified a site, is working to resolve the usual land disputes, and is preparing to sign an MOU with the Chinese Embassy.

¶13. (U) Finally, in August 2007, the China Metallurgical Construction Company, based in Jiangxi province, won a GOTL contract to build a hospital at Suai. The Chinese DCM clarified that this is a commercial undertaking, not an aid project

¶14. (C) These projects have whetted the GOTL's appetite for more new buildings. The Chinese DCM told us that his government was considering a request for construction of official housing for members of Timor-Leste's National Parliament. PolOff Xu said that the PRC had tried to interest the GOTL in other forms of aid, such as a medical mission or more school buildings, but the Timorese are clamoring for new government offices instead.

#### Food Aid And Capacity Building

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¶15. (U) Apart from its construction projects, China has also sent well-publicized food aid in response to Timorese requests during times of shortages. Since 2006, the PRC has given 8,000 metric tons of rice and 500 tons of cooking oil to the Ministry of Social Solidarity, which implemented its distribution. Although it was provided in several shipments on different occasions, 8,000 metric tons of rice amounts to about a one-month supply for Timor-Leste's population.

¶16. (U) Over the past several years, the PRC has hosted several hundred Timorese for short courses in the areas of administration, tourism, agriculture, and other vocational and technical areas. Notably, some Timorese doctors and nurses have received training in China. These are usually short courses in areas such as malaria prevention, but a few Timorese students are receiving a complete medical education in China, a program

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which takes six years including two years of Mandarin language study. A PRC Embassy contact told us that it extends 4-5 full scholarships annually for long-term higher education in China, and that these were consciously aimed at "children of the elite."

¶17. (U) Since 2003, China has also provided doctors to work in Dili's National Hospital. There are currently twelve Chinese doctors on duty there, including radiologists, internists, and cardiologists. Chinese diplomats say that the program will continue indefinitely, and that new teams will be rotated in at intervals.

#### Trade And Investment: China Still Probing

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¶18. (C) Ricardo Cardoso Nheu, himself an ethnic Chinese and the director of Timor-Leste's Chamber of Commerce, told us that PRC investment in Timor-Leste is still negligible, and that Timor-Leste's ties to Indonesia, Singapore, and Malaysia are better developed. While several PRC concerns had sent exploratory missions to look at opportunities in Timor-Leste over the past several years, none of them had led to significant investment. In recent months, he said, Chinese companies had looked into possibilities in the mining and fisheries sectors. Chinese diplomats confirmed this to us.

¶19. (C) The most high-profile of these missions was PetroChina's geological survey conducted at the GOTL's invitation in 2003-04. However, PetroChina has opted not to develop the project further, according to DCM Xiong. This was confirmed by Domingos Maria, Director of Policy in the Ministry of Natural Resources.

He said that contrary to media accounts, this was a magnetic, not a seismic, survey. PetroChina had, he said, simply undertaken a three-month geological survey of Timor-Leste's inland territory, updating a previous study from the early 1980's. The activity was not directly related to Timor-Leste's offshore petroleum and LNG reserves. After the survey was completed, there was never any follow-up, and its main outcome was a pile of rocks still sitting in a GOTL storage facility, Maria said.

¶20. (C) Similarly, there has been no follow-up to a well-publicized September 2007 visit by a group of Chinese businessmen, organized by the Timor-Leste Embassy in Beijing. At the time, the mission was hyped as preparing the way for USD 100 million in investment in commercial banking, agriculture, and property development. DCM Xiong said that the delegation represented small-scale agri-business interests, and that the promises were exaggerated either by journalists or by the delegation itself.

¶21. (U) However, there have been significant inroads into Dili's retail sector by Chinese businessmen who have arrived in the last five years. These are small-scale merchants and entrepreneurs from Fujian and Guangdong provinces who import and sell electronics, furniture, appliances, hardware, and other household items. According to the Chinese DCM, these businesses are flourishing despite non-stop problems with shoplifting and shakedowns by the locals. This community may now number about 1,000, he said.

¶22. (C) An unsavory form of Chinese entrepreneurship is also on the rise, namely, prostitution and probably human trafficking. Recent raids on bars on Dili (reftel B) turned up a number of Chinese women, and Chinese nationals suspected of involvement in trafficking have been detained on the border with Indonesia. PRC PolOff Xu recalled that during the 2006 crisis, China sent two charter aircraft to evacuate its nationals. Chinese officials were surprised when in addition to the expected construction workers and businessmen, a number of bar girls presented themselves. Their presence in Timor-Leste had been hitherto unknown to their Embassy. Xu added he had heard that they had returned to Dili after the unrest subsided.

Defense And Security: A No-Frills Supplier

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¶23. (C) President Ramos-Horta, Vice Prime Minister Guterres, and Secretary of State for Defense Julio Pinto have stated to us,

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repeatedly and explicitly, that Timor-Leste's strong preference is to cooperate with its democratic partners - Australia, Portugal, the U.S., and Japan - on defense and security matters.

Nevertheless, China has extended various forms of assistance and training to the F-FDTL. Timorese officials have remarked to us that an attractive feature of these no-frills offers is that they come with only one conditionality - non-recognition of Taiwan - whereas Western offers always seem to have strings attached.

¶24. (U) So far, China's most important contributions to the F-FDTL are, again, buildings. The PRC has a longstanding agreement to build a new Ministry of Defense and headquarters for the F-FDTL on the site of the ex-Indonesian army base at Fatuhada. The estimated completion date for the project is mid-2009, at a cost of approximately USD 2 million. The PRC has also agreed to build housing for 100 Timorese soldiers and civilians in Metinaro, east of Dili. This project is still in the early stages. The GOTL has recently resolved land issues by paying off local residents, and a Chinese engineering assessment team will make its first visit to the site in March.

¶25. (C) The PRC has invited small numbers of F-FDTL personnel to

China for training in artillery operations and advanced-level wireless operations. The courses are conducted in English, however, which limits the number of Timorese soldiers who can benefit from them. The PRC Defense Attache told DCM that while China offered training billets to fourteen Timorese soldiers in 2007, the F-FDTL had only been able to accept four.

¶26. (C) The GOTL has also purchased from China some non-lethal defense-related items including about USD 1.5 million dollars' worth of uniforms, boots, and personal items. The choice of China as a supplier for these items was mostly due to their low cost. The GOTL is reportedly considering more substantial Chinese purchases, however, including a small group of patrol boats for ten million dollars. This offer is said to include both training and spare parts.

¶27. (C) In December, Vice Prime Minister Jose Guterres told us that Chinese defense firms had approached Timor-Leste with an offer to install an array of radar facilities to monitor shipping in the Wetar Strait. The only catch was that the facilities were to be manned by Chinese technicians. The Vice Prime Minister deliberately contacted the Ambassador following the Chinese offer, noting his concerns that the radars could be used for purposes other than those touted by the Chinese. They could instead be used to extend China's radar based intelligence perimeter deep into Southeast Asia. He explicitly asked that the U.S. consider whether it saw the Chinese offer as a strategic threat.

#### A Silent Partner In Donor Coordination

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¶28. (C) On the ground in Timor-Leste, China's behavior as a member of the international donor community is ambivalent and somewhat passive. China currently contributes 25 policemen to the United Nations Police Mission (UNPOL), and regrettably does not contribute to efforts to effectively coordinate development assistance. It does, however, send a junior-level diplomat as a silent observer at SRSG Atul Khare's periodic briefings. In conversation with us, Ambassador Su Jian expressed mild skepticism about the efficacy of the United Nations Integrated Mission in Timor-Leste (UNMIT), and hinted that for China, extending its mandate was of interest mainly as leverage in connection with more important matters before the Security Council. Clearly, China's preferred approach to Timor-Leste is bilateral.

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#### Comment

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¶29. (C) As the above makes clear, Chinese aid to Timor-Leste comes with almost no conditionalities. This underscores the PRC's tendency to leave the heavy lifting in Timor-Leste to other partners. Timor-Leste's institutions remain weak, the capacity of its administrators is terribly low, and the inclination of its political leadership to be unnecessarily disputatious is strikingly strong. A question mark still looms over subordination of the country's small military force to the civilian authorities. The Timorese remain among the poorest people in Asia. Accordingly, Timor-Leste's future may hold a recurring cycle of crisis, collapse, and external intervention unless foreign donors can work together in supporting the GOTL in a long-term process of state-building. This will entail sensitive, difficult, and controversial forms of cooperation, and it is precisely this approach that China eschews. It is difficult to escape the impression that China would be content to curry favor with whoever happened to be in power in Timor-Leste, regardless of how they obtained it or of the living conditions of the Timorese people. We will continue to encourage our Chinese colleagues to be constructive partners in Timor-Leste's development, but anticipate their narrow, self-serving attitude will be very difficult to overcome. End

Comment.  
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